

Natural Resources Wales - Annual Scrutiny 2023-24

May 2024

Introduction

- 1.** The Welsh Government created Natural Resources Wales (NRW) on 1 April 2013, merging three bodies: the Countryside Council for Wales, Environment Agency Wales, and Forestry Commission Wales. It also incorporated several Welsh Government responsibilities and, from 1 April 2016, the functions of the three Internal Drainage Boards operating wholly or partly in Wales.
- 2.** In addition to a wide range of operational and regulatory responsibilities, NRW is the principal Welsh Government adviser on natural resource issues. As a Welsh Government-Sponsored Body, it is accountable to the Welsh Ministers through the Sponsorship Minister (at the time of the scrutiny session, the then Minister for Climate Change, Julie James) and subject to scrutiny by relevant Senedd committees. NRW's Board is responsible for ensuring it exercises its legislative functions appropriately and effectively.
- 3.** On 18 January 2024, representatives of NRW, including the Chair and Chief Executive, appeared before the Committee for a scrutiny session. We are grateful to them for their cooperation.



1. Governance

Remit letter

4. NRW's 2022-26 term-of-government remit letter states that the organisation should integrate its work and activities with the overarching well-being objectives identified in the Programme for Government. NRW is expected to help deliver Welsh Government priorities relating to:

- Circular Economy and Clean Air;
- Energy;
- Flood and Coastal Erosion Risk Management, Sustainable Drainage and Climate Adaptation;
- Forestry, Nature, Designated Landscapes and Countryside Access;
- Marine and Fisheries; and
- Water Quality.

Corporate Plan

5. NRW's most recent corporate plan - Nature and People Thriving Together - was published in April 2023. It is aligned with the term of government remit letter and is centred around three Well-being Objectives: Nature is recovering, Communities are resilient to climate change, and Pollution is minimised.

6. Clare Pillman highlighted that this was the first corporate plan to be published by NRW since 2018 and the first since the Welsh Government had declared a climate and nature emergency. She said that the three well-being objectives contained within the plan are “at the heart of everything we do”.

7. Sir David Henshaw said the plan was a “seminal moment” for NRW, referring to it as a fundamental shift from describing the organisation's functions to an emphasis on priorities and delivery. He said:

“what we have to do is look at each of the priorities in the context of the new corporate plan, and I think that's an opportunity as well as, frankly, quite challenging in some cases,

but it is a moment to start thinking, 'Do we do things differently in some areas?'

Service Level Agreements (SLAs)

8. During scrutiny of the Welsh Government's budget for 2024-25, the then Minister for Climate Change assured the Committee that efforts were ongoing to ensure that NRW's resources reflect their duties and functions. NRW and the Welsh Government had jointly developed SLAs in ten priority areas, with the aim of identifying the resources required to deliver different service levels. The ten priority areas are:

- flood risk management;
- NRW estate;
- pollution incident management;
- enforcement;
- water quality;
- enabling tree planting;
- freshwater monitoring;
- marine monitoring;
- terrestrial monitoring; and
- Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021.

9. Prys Davies explained that the development of further SLAs had been paused “partly because of financial pressures, and also the work that we want to do in terms of embedding the corporate plan, developing the strategic indicators, looking again at our performance framework arrangements and how we report”. He explained that the work would probably be taken up again at the start of the next financial year (in April 2024).

10. In response to a question about stakeholder feedback on the SLAs, Clare Pillman explained that they had been developed as internal mechanisms to “codify” the services the Welsh Government could expect based on the funding allocated to NRW. They had, therefore, not been consulted upon. However, she

agreed it may be helpful to discuss service levels with stakeholders and the public in light of financial pressures to improve understanding of the services NRW can deliver.

Business plan and performance measures

11. NRW's 2023-24 Business Plan is structured around the three well-being objectives in the Corporate Plan, with 'steps to take' and 'measures' needed to achieve those objectives. To assess progress, NRW is developing "strategic indicators aligned to the well-being objectives", which will be supported by "operational performance metrics and milestones aligned to the annual business plan".

12. NRW said that new draft impact statements and strategic indicators focused on delivering the corporate plan would be published in January 2024. The draft impact statements are 'outward facing', recognising that NRW cannot achieve them alone. Twelve draft strategic indicators have been identified to measure progress. These were published for consultation¹ in March 2024. In its written submission, NRW said:

"Performance against the draft impacts and strategic indicators will be scrutinised at Executive Team and the Board at well-being objective strategic discussions through the year."

13. Following publication, the draft impact statements and strategic indicators will be assessed and tested before being finalised in Autumn 2024, after which they will remain fixed until 2030.

Recruitment and skills

14. In its written submission, NRW highlighted that its People Strategy (2022-2025) "requires the development of a Strategic Workforce Plan to inform enterprise-wide decision making" and highlighted efforts to build relationships with academia.

15. Clare Pillman said that recruitment had effectively been frozen from early August 2023. Prys Davies explained that some external recruitment had occurred, but these were exceptions. He explained that, in response to the recruitment

¹ <https://ymgyngghori.cyfoethnaturiol.cymru/corporate-strategy/our-corporate-plan-to-2030-our-strategic-indicator/>

freeze, NRW had become better at moving staff around the organisation, to areas where staffing resource was needed.

16. NRW's performance report for 2022-23 emphasised that recruitment continued to be a significant challenge across key professional areas, "particularly in flood risk management and engineering". Recruitment was identified as a strategic risk, and NRW had "commissioned external support from specialists to help us improve how we recruit". Prys Davies explained that this work would allow NRW to take a longer-term view of the workforce. This was particularly important for those parts of the organisation that had experienced recruitment and retention difficulties.

Post-pandemic ways of working

17. NRW introduced an Adfywio/Renewal programme in the wake of the COVID-19 pandemic, with the aim of supporting the organisation's transformation into a more agile, resilient, and efficient entity.

18. In explaining the programme, Prys Davies focused on three key areas: accommodation, NRW's fleet, and staffing. He told the Committee that NRW has a "dynamic" long-term accommodation plan. NRW had been exploring opportunities to co-locate with other organisations, and new opportunities were being explored for leases or contracts that were ending or being changed. This included moving the corporate office to Welsh Government-owned offices in Cathays Park, Cardiff. This would provide anticipated savings of between £3 and £4 million over ten years and would halve emissions resulting from heating and electricity.

19. In its written submission, NRW said it would develop a delivery plan for decarbonising heat in its built estate but noted that "the cost of the measures needed... are expected to be significant, and the pace of this work is limited by the staffing resources available".

20. NRW was exploring opportunities to make its vehicle fleet more efficient and move away from diesel and fossil-fuel-based vehicles other than in exceptional cases. A fleet and travel strategy would be published during 2024-25.

21. In terms of NRW's staff, Prys Davies said that the results of staff surveys had shown that flexibility was something staff valued. NRW was adapting to a post-pandemic working environment, with a mix of remote and on-site working, depending on the nature of the role or the functions of the team or department.

Our view

As we said in our report on the draft budget 2024-25, we support SLAs as mechanisms to ensure that NRW's resources reflect their statutory duties and functions. We note that, thus far, SLAs have been developed across ten priority areas, and there are plans for SLAs to cover the remaining aspects of NRW's business. Although we recognise why this work has been paused, we believe the SLAs can serve a valuable purpose for prioritisation. We would like NRW to share with us an outline of the next phase of the SLA work, including the areas to be covered and a timeline for their development and implementation.

We note the comments that SLAs were developed as internal mechanisms without external consultation. However, we believe this omission may limit their effectiveness. We believe there is merit in consulting with stakeholders on the priority areas for the next phase of SLAs.

We note that NRW has launched a consultation on its strategic indicators and performance metrics. We would welcome an update on progress once the consultation has closed at the end of October 2024.

We welcome the update on developments through the Adfywio/Renewal programme, which appears to be delivering significant savings in relation to NRW's accommodation and fleet, in particular.

In our last report, we encouraged NRW to foster closer relationships with education establishments to address recruitment challenges. We were pleased to hear that some progress has been made. However, we note that NRW faces further recruitment challenges due to budget constraints. We agree with the approach taken by NRW thus far – that certain critical posts must be filled through recruitment, if necessary. We believe NRW must respond to these budgetary constraints by enhancing internal staff development and mobility to ensure that business-critical vacant posts can be filled quickly.

Recommendations

Recommendation 1. NRW should progress the development and implementation of Service Level Agreements (SLAs) across all remaining areas of its business and provide a detailed outline of the next phase of SLA work, including specific areas to be covered and a timeline.

Recommendation 2. NRW should explore opportunities to engage with stakeholders to refine and enhance the effectiveness of the SLAs, particularly focusing on the priority areas identified for the next phase of SLA development.

Recommendation 3. NRW should provide an update as soon as practicable after October 31, 2024, on the progress of developing final strategic indicators and performance metrics.

2. Budget

22. NRW receives core funding for its baseline functions and additional grant funding for projects outside those functions. NRW's total income for 2022-23 was £116M, including £22M of Welsh Government grants towards a range of outcomes. Additionally, the Welsh Government provided £118M Grant in Aid, of which £41M was allocated to flood and coastal risk management.

23. NRW's total expenditure for the year increased from £255M to £272M (an increase from £225M in 2021-22).

24. Budget allocations (core funding) to NRW remained unchanged in the 2023-24 draft budget. NRW received a further £18.2M of funding to draw down upon in 2023-24.

25. In the 2024-25 final budget, NRW's resource allocation is £88.2M, an £18.2m increase from the indicative budget.

Budget pressures and management

26. NRW's written submission highlighted pressures faced in managing increased costs. NRW was reviewing all its activities to assess where further budget reductions could be made and emphasised it was "committed to maximising efficiencies to protect frontline services". The written submission explained that:

"To realise those efficiencies, there will need to be investment, and we are discussing with Welsh Government (WG) ... the possibility of making an Invest to Save bid."

27. When asked about NRW's funding, Clare Pillman remarked that she had never seen such a challenging budgetary position. She said that NRW would have a significant gap in its budget for the next financial year caused by rising costs, falling timber income, and flat grant-in-aid. Of the flat grant-in-aid allocation, Clare Pillman said:

"the fact is that that money buys about 25 per cent less now than it did when it was allocated to us in 2021. That's true of local authorities or other public sector bodies, who've seen inflation across every aspect of our businesses, whether it's staff

costs, whether it's fuel costs, whether it's buying goods and materials."

28. She concluded, "You cannot work with a lower budget and fewer people and deliver the same services". Consequently, NRW would have to make decisions about the services it provides and whether a different approach needs to be taken. NRW would be considering these matters through the lens of the priorities in the corporate plan. She said:

"That means that we will have to be looking at every aspect of our budget, and looking at stopping some things, scaling back others, de-scoping others, thinking about how to do things differently, or actually investing in some new areas and doing things better."

29. Clare Pillman added that this process was underway, and NRW's Board would consider options over the coming weeks. NRW was working closely with the Welsh Government during this process so that it would understand the effect of the decisions being made.

30. Sir David Henshaw recognised that the financial situation was exceedingly difficult and that resources were very limited. He said this provided NRW with an opportunity to reconsider its approach positively and see whether it could deliver outcomes differently.

Possible closure of visitor centres

31. Around the time of the scrutiny session with NRW, there had been reports that NRW was considering closing such as Ynyslas, near Borth, Ceredigion, Bwlch Nant yr Arian, near Ponterwyd, Ceredigion, and Coed y Brenin, near Dolgellau, Gwynedd.

32. In response to a question about whether the financial pressures might lead to the closure of NRW visitor centres, Clare Pillman said that no decisions had been made. Still, the financial situation was so challenging that NRW had to consider all options.

Our view

We note that NRW faces a significant funding shortfall, exacerbated by rising costs and grant-in-aid allocations that do not match inflation. We believe it is incumbent on the Welsh Government and NRW to work together to ensure that

the negative impact of this budget settlement is minimised. We believe the corporate and business plans will be invaluable in focusing scarce resources.

We note that NRW has put in place a recruitment freeze, and we are concerned that this may affect its ability to deliver services. We note NRW's comments about the need to prioritise some services and scale back others. We believe that it is imperative that NRW introduces a strategic prioritisation process to determine which services are critical and must be preserved, which can be scaled back, and where efficiencies can be realised without compromising core functions.

We are concerned that decisions on service reductions or restructuring are being considered without consultation with the public or stakeholders. We believe there is merit in developing an engagement strategy to manage expectations and explain the rationale behind changes in service delivery.

As we said in our report on the draft budget 2024-25, we welcome the Minister's commitment to permanently closing NRW's funding gap. We note, however, that unforeseen circumstances such as high inflation levels and staff pay pressures have meant that this additional funding has not fully bridged the gap as hoped.

Finally, we note concerns that financial pressures may lead to the closure of key visitor centres, which will significantly impact tourism and community engagement. Given the importance of such centres, we believe that NRW should do all it can to ensure their continued operation. We expect NRW to report to this Committee within the next six months on the status of its visitor centres and its plans in this area.

Recommendations

Recommendation 4. NRW should work closely with the Welsh Government to develop and implement strategies that minimise the negative impacts of the current budget settlement and ensure that essential services are maintained despite the funding shortfall.

Recommendation 5. NRW should develop and implement an engagement strategy that includes consultation with the public and stakeholders about decisions on service reductions or restructuring. This strategy should aim to manage expectations and explain changes in service delivery.

Recommendation 6. NRW should update the Committee in due course on the details and outcome of its invest-to-save bid.

Recommendation 7. NRW should report to the Committee within the next six months on the status of its visitor centres and outline plans to continue their operation.

3. Other matters

Biodiversity

33. The COP15 global biodiversity framework was agreed in December 2022, with an overarching target to protect 30% of terrestrial, inland water, and coastal and marine areas by 2030.

34. In 2022, the Welsh Government commissioned a biodiversity deep dive in anticipation of COP15. The recommendations were published in October 2022, and an update on implementation was published in May 2023.

35. Several recommendations arising from the deep dive exercise are relevant to NRW, for example:

- Ensure protected sites (management, monitoring, designation), land and sea, are a priority for NRW through corporate and future strategies and provide adequate funding.
- Increase the delivery capacity of the National Peatland Action Programme through a phased approach so that by 2030, the programme will deliver at a scale capable of reaching the net zero 2050 target of 45,000 ha of peatland restored.
- Complete the Marine Protected Area network to ensure that the shortfalls in protecting habitats and species of conservation interest are addressed, species and habitats are well represented, and the network is connected and ecologically coherent.

Challenges and funding for biodiversity

36. Wales Environment Link's (WEL's) Pathways to 2030 report sets out priority actions for nature's recovery to 2030 and the investment required to deliver them, with reference to NRW's capacity.

37. For example, about site protection and monitoring, the report highlights NRW's 2020 Baseline Evaluation, which assessed the condition of terrestrial and freshwater SSSI features. The results showed NRW has insufficient evidence to determine the condition of around half of the features on these sites (condition classed as "unknown"). For those features where evidence was available, an

estimated 20% were found to be in 'favourable' condition. Thirty per cent were "unfavourable", and the remaining 50% were "not in a desired state".

38. The Pathways to 2030 report said addressing this will require improved staffing and resources at NRW for management, monitoring, and enforcement. It goes on to say:

"Current levels of staffing at NRW for the management and monitoring of protected sites are not precisely known but could amount to around 60 people. As a minimum, it is likely that this number would need to be doubled to address the challenges identified. This would require additional staffing costs of £3.6 million (including overheads, at a cost of £60,000 per FTE). There would be additional costs for equipment, evidence and contracted services, suggesting the need for an annual budgetary increase of at least £5 million."

39. Clare Pillman highlighted the current funding landscape for biodiversity in Wales, noting the availability of budget allocations from multiple sources, including the Welsh Government, local authorities, and environmental NGOs. She stressed that despite there being sufficient funds, "we could always spend more". The challenge is to integrate these various funding streams. Clare Pillman emphasised, "The key for me is getting all those different pots working effectively together," and recognised the role of the biodiversity deep-dive in providing focused leadership for these efforts.

40. Clare Pillman addressed the specific challenges of managing Sites of Special Scientific Interest (SSSIs), especially in achieving broader environmental goals such as the 30x30 target. She affirmed the commitment to expanding the designation of SSSIs and improving management practices, stating, "we do have some money in our budget for land management agreements on SSSIs." This reflects an ongoing effort to enhance site protection under the constraints of available funding and strategic priorities.

41. The Welsh Government has committed to bringing forward a Bill to introduce statutory biodiversity targets and establish an environmental governance body for Wales to measure and drive progress towards reaching the COP15 agreement. A white paper was published in January 2024. Clare Pillman said that NRW was "helping Welsh Government with the development of those targets."

Tackling water pollution from agriculture

42. The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 aim to address the causes of water pollution from agriculture.

43. The Regulations include a 170kg/ha annual holding nitrogen limit, initially due to be implemented on 1 January 2023. The Welsh Government agreed, through its Co-operation Agreement with Plaid Cymru, to postpone implementing the 170kg/ha limit to April 2023. It also agreed to consult on a licensing scheme allowing qualifying farms to apply a higher 250kg/ha limit.

44. Following consultation on a licensing scheme, the then Rural Affairs Minister, Lesley Griffiths MS, announced a temporary 'Enhanced Nutrient Management Approach' in October 2023.

45. The Enhanced Nutrient Management Approach runs from 1 January 2024 to 31 December 2024. It operates where 2024 nutrient management plans show the annual rate of 170kg/ha nitrogen from livestock manures is likely to be exceeded. Farm businesses must notify NRW by 31 March 2024 and undertake actions consistent with the proposed licence conditions.

46. The Welsh Government has published guidance on the Regulations and further guidance on the Enhanced Nutrient Management Approach was published on 15 December 2023.

Enforcement

47. The Welsh Government has a SLA with NRW to support enforcement of the Regulations. £2.55M has been committed for this purpose, divided between £1M in financial year 2023-2024 and £1.55M in 2024-25. NRW's written submission explained that funding increases in year 2 arise from the recruitment of staff during year 1.

Ongoing assessments and policy review

48. The Regulations allowed for alternative measures to be suggested by 1 October 2022. "Four or five" proposals have come forward, and the then Rural Affairs Minister confirmed to the ETRA Committee on 13 December 2023 that she was still open to proposals.

49. The then Rural Affairs Minister also committed to undertaking a further Regulatory Impact Assessment (RIA) (as previously agreed via the Co-operation

Agreement) considering the economic and environmental impacts of the 170kg/ha limit. The RIA and assessment of proposed alternatives will inform the four-year review of the Regulations, which is due by 1 April 2025.

50. Clare Pillman addressed monitoring the Enhanced Nutrient Management approach's impact on various environmental concerns, such as biodiversity and flood management. Despite eased restrictions on nitrogen levels per hectare, she assured the Committee that there was ongoing monitoring. She stated, "the information and monitoring data that we have will feed into" a forthcoming review by the Welsh Government.

51. Clare Pillman responded to concerns about the adequacy of the budget for monitoring and enforcement under the new nutrient management regime. She acknowledged the budget constraints and described the £2.5M funding from the Welsh Government as "the minimum that we felt was viable to deliver a service in this area." This funding will fund a team focused on compliance inspections and enforcement.

52. Finally, Clare Pillman confirmed that preliminary discussions with the Welsh Government regarding the four-year review of the Regulations was scheduled to begin shortly.

Tree planting

53. With 15% tree cover, Wales is one of the least forested countries in Europe. Tree-planting rates have been below Welsh Government targets for several years. In 2021, the then Deputy Minister for Climate Change, Lee Waters MS, led a 'deep-dive' into removing barriers to planting. As a result, the Welsh Government set a target to plant 43,000 ha of new trees by 2030 (almost 5,000 ha per year), rising to 180,000 ha by 2050 (over 6,000 ha per year) to help reach net zero, consistent with UK CCC advice.

NRW's Role in Tree Planting and Forest Management

54. Clare Pillman explained that NRW is responsible for managing the Welsh Government's woodland estate and highlighted two purposes for which NRW undertakes tree planting - replacing trees lost to diseases like larch disease or those felled for timber. She explained the decision-making process post-felling, saying that "we always then take a view, on the basis of the information in the forest resource plan, as to whether that coupe should be replanted, restocked, or whether it should be allowed naturally to regenerate."

55. Clare Pillman explained that NRW uses funds from windfarm developments on the Welsh Government woodland estate to finance compensatory tree planting. This involves purchasing land for tree planting to “compensate for the loss of tree cover caused by those windfarm developments,” with the aim of ensuring a balanced approach to land use and environmental impact.

56. Addressing concerns about using agricultural land for tree planting, Clare Pillman reassured the Committee that NRW is cautious in land selection, prioritising less fertile land for afforestation. She supported a balanced approach that integrates tree planting with traditional farming practices.

Internal drainage districts

57. In response to a question, Clare Pillman highlighted the considerable variability among internal drainage districts in Wales, noting the differences in size and operational scale. This variation affects how each district is managed and funded, impacting their overall efficiency and scope of operation.

58. Clare Pillman pointed out that these drainage districts are experiencing increased flooding patterns due to climate change. She emphasised the need for a strategic re-evaluation of internal drainage districts, particularly in how they align with broader environmental goals, including the Welsh Government’s proposed Sustainable Farming Scheme.

Our view

Biodiversity

We remain concerned that NRW has insufficient evidence to determine the condition of around half of the features on Sites of Special Scientific Interest (SSSIs). Current staffing and resource levels are inadequate to meet conservation goals, and we note the suggestion that there is a need to potentially double the staff to effectively address the identified challenges. We acknowledge the financial challenges that the Welsh Government and NRW are facing. Nevertheless, we must find a way to make progress. We look forward to exploring these issues with the new Cabinet Secretary for Climate Change.

This Committee regularly returns to the issue of leveraging investment, and we will press the new Cabinet Secretary on this issue. We believe there is merit in developing a coordinated funding framework that allows for strategic allocation of resources from different sources.

Finally, we would be grateful for an update from NRW on the work it is undertaking in relation to the development of biodiversity targets.

Enhanced Nutrient Management approach

We note with concern the significant disagreement among stakeholders regarding the approach to controlling agricultural pollution. We believe the Welsh Government should seek to facilitate dialogue between NRW, farmers, and environmental groups.

We believe that, if it is to be effective, adequate resources for monitoring and enforcement of the new approach are crucial. However, we note that there are widespread concerns about the adequacy of the budget for these activities. This should be kept under review by NRW and the Welsh Government.

The effectiveness of the Enhanced Nutrient Management approach and its impact on water quality and agricultural practices needs detailed consideration. We believe the Cabinet Secretary should ensure that the forthcoming review of the Regulations is transparent and systematic. The Cabinet Secretary should ensure that the findings of the review are publicly available and used to inform policy changes.

We will seek the Cabinet Secretary's reassurance, in due course, that the Enhanced Nutrient Management approach secures the environmental outcomes we wish to see.

Tree planting

Although we welcome recent efforts by the former Minister and Deputy Minister for Climate Change, we remain concerned about the lack of progress on tree planting. We note that this is not a matter for NRW but will raise this issue with the newly appointed Cabinet Secretary for Climate Change.

We welcome NRW's comments about the use of funds from wind farm developments for compensatory tree planting. We encourage NRW to explore the potential of expanding the scope of compensatory tree planting to include other developments that impact the environment. This could include developing partnerships with other sectors to fund additional tree-planting initiatives.

We note NRW's comments about whether to replant, restock, or allow natural regeneration after tree felling. Resource plans should be reviewed regularly to

ensure they incorporate the latest ecological research and climate change projections. Further, NRW should seek to increase the use of native species and mixed planting to enhance biodiversity and resilience against diseases.

On the issue of internal drainage districts, we would be grateful for an update from NRW on any discussions it has held with the Cabinet Secretary for Climate Change and Rural Affairs.

Recommendations

Recommendation 8. The Welsh Government should explore opportunities to develop and implement a coordinated funding framework that allows for the strategic allocation of resources from different sources to support biodiversity conservation.

Recommendation 9. NRW should provide a detailed update on the progress of developing statutory biodiversity targets.

Recommendation 10. The Welsh Government should facilitate dialogue between NRW, farmers and environmental groups to address the significant disagreement regarding the approach to controlling agricultural pollution.

Recommendation 11. NRW should keep the adequacy of resources for monitoring and enforcement of the Enhanced Nutrient Management Approach under review.

Recommendation 12. NRW should regularly review its forestry resource plans to ensure they incorporate the latest ecological research and climate change projections and increase the use of native species and mixed planting to enhance biodiversity and build resilience against diseases.

Recommendation 13. NRW should provide an update on any discussions held with the Cabinet Secretary for Climate Change and Rural Affairs regarding the management and plans for internal drainage districts.